Statement of
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Management and Performance Issues Facing HUD

Chairman Burton, Ranking Member Waxman, and other Members of the Committee, I appreciate the opportunity to appear before you today to discuss management and performance issues facing HUD. Nearly two years ago I testified on this same subject before your Subcommittee on Human Resources. At that time, HUD's total staffing level was 10,434. The principal message in my March 1997 testimony was that the number and varied types of HUD programs/ initiatives were out of balance with the capability of the constantly dwindling HUD staff to carry out those activities. Since that time, we've continued to see new programs and initiatives at HUD, but HUD has reduced staffing another 12%, to a level of about 9,100.

Two years ago, we reported that HUD administered about 340 programs/initiatives. For several months, we had a back and forth discussion with HUD management as to the accuracy of that count. While there are many ways to count these activities, there is little debate that HUD administers a growing number of widely diverse programs and initiatives. Just last week, in announcing HUD's year 2000 budget, the Secretary identified at least 15 new programs/initiatives.

The History of Reinvention at HUD

Keep in mind that, in a report dated July 1994, the National Academy of Public Administration said that "The Department should be preserved only if it can demonstrate the capacity to manage its resources responsibly, and if the administration, Congress, and HUD can put aside the past to look toward how the department can best help communities meet their needs in a flexible fashion. If, after five years, HUD is not operating under a clear legislative mandate and in an effective, accountable manner, the President and Congress should seriously consider dismantling the department and moving its core programs elsewhere."

And, indeed, HUD has been in a change mode ever since. Former Secretary Cisneros announced his Blueprint for Reinvention in 1994. Secretary Cisneros knew that HUD was extremely vulnerable as there were many discussions in the Congress about abolishing the Agency. Secretary Cisneros' proposed reforms were dramatic and sweeping to include major program consolidations and moving FHA out from HUD. A second part of his plan was to reduce HUD's staffing level to 7,500 by the year 2000. While there was no analytic basis for the 7,500 staffing level, given the sweeping program changes that were being proposed, the number may have been plausible if the reforms had been enacted. However, the Cisneros Blueprint ran on two tracks: the first was programmatic reform; the second was staff reductions. The first track was derailed as efforts to develop and implement new legislation were unsuccessful. The second track, the staffing reductions, continued moving forward.

By the time Secretary Cuomo took office in 1997, a clear lesson had been learned from the fate of the Reinvention Blueprint: legislative reforms at HUD would be extremely difficult to achieve, but cuts in HUD staffing were generally viewed favorably and could be accomplished with relative ease. Thus, Secretary Cuomo abandoned the programmatic reforms of the Reinvention Blueprint but held to the staffing reduction goal. In June 1997, Secretary Cuomo announced his HUD 2020 Management Reform Plan, which included the staffing reductions plus a series of complicated and far-reaching organizational and management process changes in HUD. Many of these changes were designed to address HUD management deficiencies that had been the subject of negative reports by the General Accounting Office and the Office of Inspector General. The concept was and is that HUD's overall performance will improve, despite continued staffing reductions, through correction of these management deficiencies. While the Office of Inspector General supported the intentions of HUD 2020, we noted that the details of the Plan were sketchy at best and the Plan was not supported by a realistic cost benefit analysis.

Implementation of the HUD 2020 Management Reform

In an effort to utilize the buyout authority legislation that was expiring December 31, 1997, HUD moved fast to reduce staffing. In the fall of 1997, HUD lost about 1,000 mostly senior staff to buyouts. This month's Government Executive Magazine includes the following quote from an Office of Personnel Management report on the Federal Government's downsizing: "The majority of agencies showed 'little or no regard for the long-term impact on the ability to carry out the mission considering such factors as core responsibilities and skill balance.'" Indeed, the push at HUD was to bring down the numbers with little thought as to how that might impact on operations in the short or long term.

As noted above, HUD 2020 involved an entirely new organizational structure for HUD, and a staffing level of 7,500. Employees were required to apply for positions in this "new HUD." Late 1997 and early 1998 were troubling times for many HUD employees. After a colossal merit staffing process, some 1,300 to 1,400 employees found themselves without positions; and many other HUD staff changed jobs and/or locations during the merit staffing process. In the spring of 1998, the Secretary announced that HUD's target staffing level would be 9,100 until such time as HUD programs were consolidated and the public and assisted housing portfolios substantially improved; and all unplaced staff would be assigned positions in the "new HUD."

While the HUD 2020 organizational and staffing changes are generally complete, the management process changes that were to compensate for staffing reductions and bring increased efficiency and better performance are still a work in progress. For example:

Real Estate Assessment Center (REAC) Operations. The REAC, which is a cornerstone of HUD 2020 Management Reform, is expected to provide the Department the means to evaluate the overall condition of its public housing and multifamily portfolios, more than 30,000 properties. The REAC will use objective measures to determine the physical and financial conditions of these properties. Physical condition will be measured by inspectors using hand held computers to note the condition of various elements of the property. Financial condition will be measured using the annual financial statements submitted in an automated format by the owners or auditors. A third measure will be a Resident Service and Satisfaction Survey.

A score will be associated with each of these measures. The Internet will be used to transmit the data to a HUD central repository. Properties demonstrating a failing score will be targeted for intervention. While this process of scoring properties, based on the physical and financial information, is far along in development, actual implementation and use of this process for monitoring may be a year or more away. While we are optimistic, the potential benefits and results are still unknown.

Troubled Agency Recovery Center (TARC) and Enforcement Center (EC) Operations. The type of intervention for identified troubled projects will depend on whether the property is public housing or multifamily insured housing.

- Failing scores for Public Housing Agencies (PHAs) will result in referrals to a TARC either in Cleveland or Memphis. The TARC will be responsible for developing and implementing intervention strategies to help a troubled PHA perform at an acceptable level. If the PHA is making substantial progress after the first year, the PHA may be allowed to continue in the recovery effort an additional year. If the PHA has not achieved a passing score within 2 years, the recently enacted Quality Housing and Work Responsibility Act of 1998 requires that HUD place the PHA in judicial or administrative receivership.

- Multifamily projects with failing scores will be referred to the Enforcement Center (EC). Protocols defining relationships among the REAC, the Office of Housing, and the EC with respect to such properties are still under development.

Both the TARC and the EC are currently operational. However, their existing workload is the many troubled projects that have been identified in years past using old business methods.

Home Ownership Center (HOC) Operations. The concept of HOCs, started in the previous Administration, was made part of the 2020 Reform. The four HOCs (in Philadelphia, Atlanta, Denver, and Santa Ana) have responsibility for the oversight of single family endorsements (800,000+ annually), management of Real Estate Owned (REO) (70,000+ annually), and servicing of Secretary held notes (12,000+). The staffing level for these HOCs was predicated on HUD's contracting out the management of REO and selling off the note portfolio. The Management and Marketing Contracts for REO were just announced last week and there has been no action on the sale of the note portfolio.

Section 8 Financial Management Center (FMC) Operations. Under HUD 2020, the FMC in Kansas City is to take responsibility for the budgeting, financial and payment functions for project-based section 8 assistance. It was thought that these type of routine processes (i.e., reviewing vouchers, renewing contracts, and processing rent increases) distracted Office of Housing field staff from performing their more important monitoring functions. It was intended that the FMC would oversee the work of Contract Administrators who would actually perform the Section 8 management processes for the Department. Today, however, most Office of Housing field offices continue to perform these Section 8 duties. HUD has requested $209 million for Contract Administrators in FY 2000.

Community Builder Function. The Community Builder function is part of the Secretary's HUD 2020 goal of helping State and local governments, businesses and non-profit groups gain an understanding of and ability to utilize HUD programs. The Secretary refers to the Community Builders as part of a new "Urban Peace Corps." Most of the soon to be 800+ Community Builders are being hired as two year term employees at high grade levels, between GS 13 and GS 15. About one third of the CB staff are full-time career Federal employees. It is intended that Community Builders will handle outreach efforts while the behind-the-scenes work of the Agency will be performed by Public Trust Officers. A Public Trust Officer in HUD is pretty much anyone who is not a Community Builder. Bringing in a cadre of high paid outsiders to be the experts in HUD programs has been the basis for much consternation among the many experienced program staff at HUD. Community Builder staff and Public Trust Officer staff are still in the process of defining their specific roles and responsibilities.

When HUD began its 2020 Reform changes in the fall of 1997, the OIG thought that the reforms were moving too fast. While the organizational framework for the new HUD was designed, the details behind the reforms were barely in the planning phase. Staff were hired for new positions in the agency that were still being defined. In some instances, we found that vacant positions in Centers were announced before HUD had determined where the Centers would be located. We issued a report in the fall of 1997 recommending that the Department delay the timeline for completing the reform effort and review the costs and benefits of the changes before the changes were made. Our concerns went unanswered.

As I described earlier, HUD lost a significant number of staff in the fall of 1997. By early 1998, many of the positions in HUD's new organizational structure had been merit staffed and people were moving into them. In short, it was clear, in early 1998, that it was too late for HUD to turn back to the past ways of doing business. The OIG therefore changed its posture on HUD 2020 Management Reform, and urged that the management process reforms needed to support and enable the organizational changes and staffing reductions be implemented as quickly as possible.

As discussed above, however, many of these management process reforms are still not operational. Some are not even projected to be operational for another year or so. While delays are understandable given the magnitude and complexity of the HUD 2020 changes, it is clear from our recent audit work that these delays in fully implementing HUD 2020 are causing serious overloads of work and that critical tasks, such as monitoring program recipients, are being deferred.

Recent Audit Results

Over the past year, the OIG has conducted major, nationwide reviews of three important HUD programs (HOPE VI, Empowerment Zones, and Drug Elimination Grants). Lack of adequate HUD oversight emerged as a common theme in each of these audits.

HOPE VI. We found that, until very recently, HUD has taken a "hands off" approach to oversight. Four of the 13 projects we reviewed had never been monitored; the remainder had infrequent monitoring. This "hands off" policy resulted in HUD's failing to take action even when it was aware of problems. A year ago, the HOPE VI Director in Headquarters reported that he was down from six grants managers to one grant manager for this $2.5 billion program: two positions had been lost to buyouts and three managers had taken other positions as part of the HUD 2020 reorganization. As of today, the HOPE VI Director has hired an additional 11 staff and additional responsibility for oversight has been delegated to the field. We question the field offices' capacity to assume a greater role.

Empowerment Zones. Our review of the Empowerment Zone Program in four locations has shown that HUD relies heavily on cities to report on Zone accomplishments. We found a number of inaccuracies in city reporting. For example, the City of Atlanta incorrectly reported the status of five of the 16 activities we reviewed. Also, nine of the 16 activities were established or scheduled prior to the City's Empowerment Zone designation, leaving a distorted impression of Empowerment Zone accomplishments. In Chicago, $670,000 of Zone funds did not benefit Zone residents as reported. In each of our Empowerment Zone reviews, we saw the need for HUD to more closely monitor activities so that the Department and the Congress can see the true results from these designations.

Drug Elimination Grants. Our multi-District audit of the Public Housing Drug Elimination Program found that HUD does not have an effective reporting and evaluation system to measure the results of this program. We found grantees lacking in proper administration of expenditures. Also, grantees had not established effective systems for evaluating, monitoring, or reporting on outcomes and benefits. We believe that HUD needs to develop internal management controls to detect, avoid, and correct instances of mismanagement in program operations.

This year's financial audit of FHA yielded similar results:

Multifamily Program. We found that delays in implementing the REAC and the EC had created serious work overloads for the Multifamily Hubs. Plans to bring about a manageable ratio of projects to project managers have not worked. In four offices we visited, project ratios varied from 25 projects per manager in one office to 62 per manager in another office. Ironically, the office with the 62 to 1 ratio was doing a better job of oversight--because the project managers at the 25:1 office were new and unfamiliar with their portfolios. Also, functions such as correcting data integrity problems in Multifamily systems or dealing with Section 8 assistance took up a large part of the staff time.

We found that property inspections were done intermittently and that most offices did not have qualified staff to conduct such inspections. In prior years, a contractor assisted in the performance of physical inspections, but that contract was terminated in May 1997 because of the impending REAC system. Last fall our Capital District, Office of Audit, looked at the HUD field office files for about 30 insured projects in Washington, DC. We found most of the project files were incomplete with missing financial statements or missing physical inspection reports. When we asked the Chiefs of Project Management in the various field offices how they detect financially troubled projects, they answered that the REAC would provide that information.

Single Family Program. Under HUD 2020, staffing for FHA's Single Family Program was cut in half, and Single Family functions were moved from local offices to the four HOCs. It was intended that Single Family become more of a wholesale operation. Functions once performed by HUD staff such as loan endorsements, loan servicing, and REO disposition were to be moved to contractors that the HOCs would oversee. While some progress has been made, most of the contract functions are still not in place and HOCs are feeling the effects of staffing shortages as described below.

It is, of course, important that HUD oversee the work of direct endorsement lenders that make up the bulk of our 800,000 FHA loans insured annually. We found that the HOCs were not performing a meaningful quality control analysis of lenders. Staff were not following up with lenders identified as having poor underwriting practices. Because of staffing and budget constraints, the HOCs were also not performing adequate oversight of appraisers. Given the fact that HUD's underwriting standards have become less stringent, the function of lender endorsement oversight is critical to protecting the insurance fund.

HUD still has an inventory of 12,300 Secretary-held mortgages. HUD took over these mortgages under the previously authorized Assignment Program. These loans were once serviced out of the appropriate local HUD field offices. The HOCs took over servicing responsibility and moved the workload around to various field offices that had available staff. Currently, these loans are serviced out of eight offices. We found that many of the HUD servicing staff had little knowledge of HUD servicing requirements. Many of these loans are seriously delinquent and some borrowers haven't made mortgage payments for more than a year. No foreclosure actions have been taken on seriously delinquent loans in more than a year.

Another critical function of the HOCs is the oversight of Real Estate Owned (REO). When lenders foreclose on FHA mortgages, a claim is filed with the Department. In 1998, HUD paid about 70,000 claims and took ownership of these properties. HUD's REO inventory has been holding at about 40,000 properties. When HUD takes ownership, they generally turn the property management over to a Real Estate Asset Manager. It is HUD's responsibility to see that the property is properly inspected, appraised, secured, repaired if necessary, listed for sale, maintained and sold. We found serious problems in the management of REO properties, primarily due to staffing shortages or a lack qualified staff. Problems noted include:

1. Appraisals of properties were not ordered in a timely fashion.
2. HUD systems information used to track property status was inaccurate and incomplete.
3. Properties were not secured by the HUD contractor who was paid to manage the property.
4. Properties lacked signs showing they were HUD property available for

sale.

5. Contractor repairs were paid for but not performed.
6. Case files were lost or missing critical information.
7. Contractors and closing agents were not monitored by HUD staff.

The problems in the FHA Multifamily and Single Family Programs illustrate yet a further complexity inherent in the HUD 2020 Management Reform: attempting to implement organizational and process change while HUD still has material weaknesses in its basic systems of internal control. These material weakness include inaccurate, unreliable, and fragmented information systems, ineffective contract administration, and lack of a system to make rational staffing decisions. To his credit, Secretary Cuomo has addressed each of these areas in HUD 2020, but these material weaknesses are of long standing and not amenable to quick fixes. They make every change in HUD more difficult than it should be.

Conclusion

My purpose today is not to fault the HUD 2020 Management Reform. I think I can speak for everyone in the OIG in saying that we want to believe that the HUD 2020 Management Reform will work, and that HUD's program performance will improve as a result. But, in our judgment, the HUD 2020 Management Reform is not a sure thing. It ignores HUD mission and programs to concentrate on organization and management process. It builds on systems of internal control that are still seriously deficient. It was driven by staff reductions that had no rational basis. As it is being carried out, the number of HUD's diverse programs continues to increase. The centralized centerpieces of the Reform, the Real Estate Assessment Center and the Enforcement Center, are administrative creations that could easily be abandoned by a subsequent Secretary. But, most important, during the current transition period, HUD programs are particularly vulnerable to fraud, waste, and abuse. My purpose today is to ask for close and continuing Congressional oversight to minimize those vulnerabilities.